LOCAL AND STATE FINANCING IN THE UNITED STATES AND NEW YORK STATE

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SOURCES OF DATA

Figures measuring government revenues and expenditures come predominantly from the Census of Governments for 1957 and earlier years. The principal source was the *Compendium of Government Finances*, Vol. III, No. 5, 1957 Census of Governments, Governments Division, Bureau of the Census, United States Department of Commerce (July 1959). Taxes reported by the census were reclassified to include here those under "insurance trust revenue," *i.e.*, the federal "social security" taxes paid into the Old Age and Survivors' Insurance and Disability Insurance trust funds, and the state taxes paid into the Unemployment Compensation trust fund.

Population figures for computing taxes per capita are census estimates for July 1, 1957 reported in *State and Local Government Finances in 1957* by the Governments Division.

Gross national product and personal income figures are compiled by the National Income Division, Office of Business Economics, United States Department of Commerce. Personal incomes in each state for 1957 were published in *Survey of Current Business* for August 1959 by the Office of Business Economics. Data for earlier years also come from this periodical.

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EDWARD A. LUTZ

Local and state finance has commanded rising public interest in the past few years. Immediately after the Second World War, it was difficult to assemble a corporal's guard to study this subject in competition with other attractions. Why the difference?

A nutshell answer probably lies in the growing anguish felt from a pincer movement. On the one flank, taxes have been edging forward faster than personal incomes, and concern arises over when or whether this movement may be halted. On the other, current and prospective voids in public services are plainly visible to many groups and individuals, and appear to be closing in to reinforce the tax advance.

State and local taxes rose somewhat in the United States during the Second World War (from $9.2 billions in 1941 to $10.5 billions in 1945), but total production and incomes in the nation's economy were growing much more rapidly (figures 1 and 2). War effort priorities curtailed most state and local services and construction. Many state and local governments built up surpluses. Then many held off postwar expansion of needed construction and other activities in anticipation of a depression and price decline. As of today, the surpluses have long since disappeared;

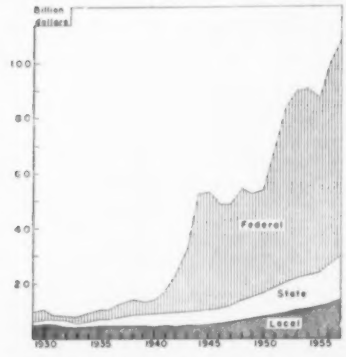


Figure 1. Amount of federal, state and local taxes, 1929–57

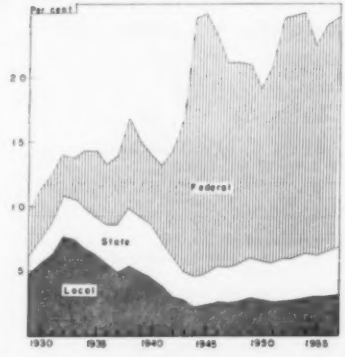


Figure 2. Ratio of federal, state and local taxes to gross national product, 1929–57

construction of schools, roads, hospitals and the like is under way after a long period of curtailment during the '30s and '40s; current services in education, welfare and social security, health, highways and so on have been expanded in response to public needs and demands; taxes to pay for the services have increased both in dollars and relative to national production; and debt has mounted.

State and local taxes have increased from about $10.5 billions in 1945 to about $30.3 billions in 1957, and the ratio of taxes to gross national product (GNP)[1] has grown from 4.9 percent in 1945 to 7.0 percent in 1957. Most recently, in 1956 and 1957, increases substantially exceeded those of earlier postwar years. State and local net long-term debt rose from about $14 billions in 1945 to about $47 billions in 1957. To forestall hasty conclusions, let us note that the ratio of taxes to GNP in 1929 was 6.2 percent, and rose, because of the drop in GNP, to 10.9 percent in 1932.

Taxes are not something apart from other human affairs, nor are they beyond human control. Governments in the United States collect revenues in taxes and other ways primarily to finance the things that people expect of these governments. Citizens collectively decide what governments do and how governments pay for the things done. Anyone may exert his influence on these decisions, generally with more effect if we try to understand the complex issues of finance that face most governing bodies.

FEDERAL FINANCE IN RELATION TO STATE AND LOCAL FINANCE

The past 30 years have witnessed a major shift in federal finance in relation to state and local finance, primarily as an outgrowth of the Second World War and continuing cold war. The following figures indicate this change:

	1929	1945	1957
		(billions)	
Amount of taxes	$9.8	$53.2	$107.7
Federal	3.3	42.7	77.4
State	1.6	5.6	16.0
Local	4.8	4.9	14.3
		(billions)	
Gross National Product	$104.4	$213.6	$434.4
Ratio of taxes to GNP	9.4%	24.9%	24.8%
Federal	3.2	20.0	17.8
State	1.6	2.6	3.7
Local	4.6	2.3	3.3

[1]Gross national product is a statistical measure of the nation's total production, compiled by the United States Department of Commerce.

Federal taxes in 1929 were little more than half the $6.4 billions of state–local taxes. In 1957, they were two and a half times the state–local aggregate of approximately $30.3 billions. State taxes have likewise expanded more than local, though not so much as federal. All taxes in 1957 were about 25 percent of the GNP, compared with 9.4 percent in 1929, predominantly because of the growth of federal collections. Federal taxes, as a ratio of the GNP, reached their peak at the end of the Second World War, but have remained relatively high as state and local collections have moved upward.

In 1957, approximately four-fifths of federal budget expenditures were for the common defense: military services, international affairs and finance, veterans' services and benefits, and interest on the national debt. The civilian or non-defense functions are financially significant, however. The more important of them include trust fund payments of Old Age, Survivors' and Disability Insurance (estimated by the Federal Budget Bureau at $11.9 billions for the fiscal year ending June 30, 1960); farm price support and related programs ($4.5 billions); veterans' services and benefits, if one chooses not to include them under defense ($5.1 billions); and flood control, irrigation and related activities ($1.2 billions).

Over the past few decades, federal conditional grants of financial aid for stimulation and partial support of state and local programs have grown in amount and variety of purposes. The Federal Budget Bureau estimated the total required for fiscal 1960 at $6.9 billions, of which over $3 billions was to be for highway construction and $2 billions for public assistance to needy persons. The $6.9 billions figure is more than double that of five years before.

Federal functions not directly related to national security are important financially, even though modest compared with defense requirements. Their financial, administrative, and political impact upon state and local activities is pervasive.

The states and localities are, however, the home governments traditionally and presently responsible for providing most public services that affect intimately the daily lives of their citizens. These governments conduct the public schools and colleges, build and maintain the roads and streets, give aid to the needy, run public hospitals for the physically and mentally ill, operate public water and sewerage facilities, provide police and fire protection, record births and deaths, issue licenses to hunt and to marry, and perform dozens of other chores, both menial and exalted, that are demanded by voters of a civilized, more and more intricately geared, rapidly changing, free society.

STATE AND LOCAL GOVERNMENT ORGANIZATION

Aggregate state–local statistics are deceiving if they convey the impression of country-wide uniformity in any respect, financial or otherwise, relating to these governments. Foreigners have commented, unfavorably with rare exceptions, upon the bewildering variety of "provincial" organization and activity in the United States. A few of the more discerning, among them Alexis de Tocqueville about 125 years ago, have noted the presence, however, of one essential ingredient lacking over much of the world—vitality.

Each of the states in our federal system has authority through its people or their representatives to determine the kinds of local government it will have, what they shall do, and how they shall do it within the strictures of the Federal Constitution and laws. Such decentralization of power to design has led understandably to variety rather than uniformity.

The Federal Census Bureau counted over 102,000 governments in the United States in 1957, ranging from 91 in Rhode Island to over 6,000 apiece in Nebraska, Illinois, Minnesota, and Kansas. The census classifies them as follows:

	United States	New York
Counties	3,047	57
Municipalities	17,183	611 (62 cities and 549 villages)
Townships	17,198	932
Special districts	14,405	924
School districts	50,446	1,664
States	48	1
United States	1	
Total	102,328	4,189

County governments extend most widely over the United States and cover all but a small fraction of its area (the five counties in New York City, for example, are not counted as governments). Township governments are largely confined to the Northeast and Midwest. School districts are by far the most numerous. They range from none in a few states (Maryland, North Carolina, Virginia, Rhode Island), where other local governments are responsible for schools, to almost 5,000 in Nebraska where the small school district of tradition continues.

By and large, the units of local government reflect a pattern established in an earlier era, and the states and their people have been slow to change it. The one outstanding exception is school districts which declined from 109,000 in 1942 to 50,000 in 1957 as the movement for consolidation of small school districts into larger units has gained momentum in some states. A modest reduction in townships has resulted from their decline in a few states, while urbanization has tended to increase the

number of municipalities and the number of special taxing and improvement districts having governing boards and powers.

In New York, consolidation and centralization has shrunk the number of school districts from 6,064 in 1942 to 1,664 in 1957. The last county formed was Nassau in 1898; the number of towns has altered little in a hundred years; and the city and village total has changed little in the last generation. The special districts increased from 675 in 1942 to 924 in 1957, but there are a few thousand more such districts that the census does not count as local governments because they are administered by towns rather than as semi-independent entities.

Variety in the state and local pattern is by no means confined to numbers and kinds of governments. Differences occur both from state to state and within states: in division of important functions and responsibilities between state and local governments as well as among local governments; in organization of state and local units; in power extended to local units; in taxing authority of states and localities; in state financial and other aid to localities; in the kind and quality of state and local services performed; in overlapping layers of local government; in readiness to change; and in many other things.

Local and state finance relates importantly to number, kind, and organization of local governments, and to the division of power and responsibility between the state and its localities. For example, equalization of tax burden, however one may define equalization, is simpler where there are few local governments that do little than where there are many units, overlapping in area, that have numerous and financially costly responsibilities. One taxing jurisdiction, such as the state, can equalize better than hundreds or thousands of local taxing authorities. Equalization, of course, is not the only objective of government. If it were, we might do better without either state or local governments, and leave taxation to the national Congress.

WHERE THE MONEY GOES

Although state and local governments do many things in a variety of ways and degrees of intensity, three general functions are typically the most expensive, particularly in rural areas: education, highways, and aid to the needy (table 1 and figures 3 and 4).

Education, highways and welfare together account for 54 percent of total expenditure and 64 percent of general expenditure. Education is by far the leader, not only among state–local activities, but also compared with federal non-defense functions. The scope of public welfare is perhaps unusually elusive to define. If one were to consider it broadly, it might

Table 1. Expenditures by State and Local Governments of the United States and New York State, 1957

Purpose	United States		New York State	
	Amount	Percent of total	Amount	Percent of total
	(billions)		(millions)	
Education:	$14.1	29.7%	$1,433	24.6%
Higher education (state)	$ 1.9	4.1%	$ 57	1.0%
Local schools	11.9	25.0	1,354	23.2
Other	0.3	0.6	22	0.4
Highways	7.8	16.5	653	11.2
Public Welfare	3.4	7.1	359	6.2
Hospitals	2.7	5.6	450	7.7
Health	0.6	1.2	76	1.3
Police	1.5	3.2	229	3.9
Local fire protection	0.8	1.7	123	2.1
Sanitation	1.4	2.9	205	3.5
Natural resources	1.0	2.1	118	2.0
Local parks and recreation	0.6	1.3	83	1.4
Housing and community redevelopment	0.5	1.0	163	2.8
General control	1.7	3.6	233	4.0
Interest on debt	1.1	2.3	203	3.5
Other	3.2	6.7	491	8.4
General expenditure	$40.4	84.9%	$4,819	82.6%
Liquor stores	0.9	1.9		
Local utilities (water, electricity, transit, etc.)	3.5	7.3	536	9.2
Insurance trust expenditure:	2.8	5.9	481	8.2
Employee retirement	1.0	2.1	213	3.6
Unemployment compensation	1.5	3.2	219	3.8
Other	0.3	0.6	49	0.8
Total	$47.6	100.0%	$5,836	100.0%

Source: U. S. Bureau of the Census, Governments Division, *Compendium of Government Finances*, July 1959.

include much of the publicly financed care in hospitals, much of health, and possibly unemployment compensation. If all were included under welfare, the total would be $8.2 billions, much less than for education but more than for highways.

A high proportion of the population lives in urban areas. For this and other reasons, these figures are heavily weighted by urban experience. Rural areas probably spend relatively little through local government utilities (for public water supply, gas, rapid transit, and the like), or for public sewerage, parks, housing and so on. In most rural communities, therefore, the proportions of state and local expenditure for education, highways and probably welfare are almost certainly higher than appears from these figures.

EXPENDITURES OF STATE AND LOCAL GOVERNMENTS, 1957

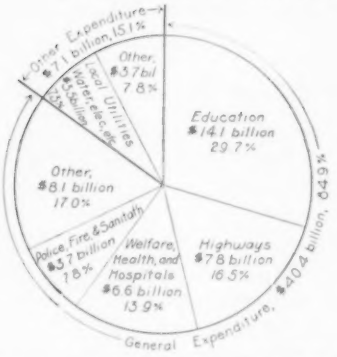


Figure 3. United States total—$47.5 billion



Figure 4. New York State total—$5,836 million

The pattern in New York, according to census figures, is fairly similar to the national one, except that education and highways are proportionately less important, and health, hospitals and other functions somewhat more so (figure 4). The variation from the national pattern is partly a reflection of heavier urban concentrations in New York than in most other states.

Local Spending

Local governments spent all but a small fraction of the state–local total of $11.9 billions reported for local schools. They dominate in the administration of public elementary and secondary education. They are also important in highway outlays, though the pattern varies among states more than for schools. Nationally, local governments spent 38 percent of the state–local total; in New York they spent 54 per cent. Almost half (49 percent) of state and local welfare expenditures were made by local governments, but the degree of local responsibility differs widely from state to state. In New York, local governments made almost all (99 percent) of state and local welfare disbursements.

In all three functions, local expenditures came partly from state and federal aid. The figures below show disbursements of such aid as a percentage of local expenditures for each function:

	United States average	New York State average
Education	35%	36%
Highways	36%	14%
Welfare	62%	59%

Aid for education ranged from 5 percent in New Hampshire to 74 percent in New Mexico, and is indicative of interstate variations in this and other respects.

WHERE THE MONEY COMES FROM

Countrywide, taxpayers in 1957 paid more than twice as much in taxes to the national government as to state and local units, and paid federal levies predominantly in the form of income taxes (table 2 and figures 5, 6 and 8). Locally, the property tax was supreme with the possible exception of a few urban centers. State taxes generally were more diversified of source than either federal or local; imposts on income and sales, both general and selective, were more important than others, and levies of highway user taxes were universal and sizable.

New York State differs somewhat from the nationwide picture (figures 7 and 9). The state did not use a general sales tax, but instead empowered its counties and cities to do so if they wished. The state depended relatively heavily upon income taxes; and relatively lightly upon the motor fuel tax (before the increase of 1959), and other revenues including charges for services. Locally, the property tax was about as important a part of total revenues in New York as it was countrywide, but retail sales taxes were more important than over the nation. Figures for urban governments, especially New York City, dominate local totals in New York even more strongly than over the country as a whole.

State and local taxes totaled $30.5 billions across the nation. Revenues other than taxes aggregated $15.5 billions, so that total revenues were about $46 billions.



Figure 5. **Federal revenues, 1957, $87.1 billion**

The property tax is by far the leading tax in the state–local field because it is obviously the mainstay of local governments. Local taxes other than on property are relatively modest. A few local jurisdictions use the sales and gross receipts taxes. Of the non-tax revenues, many if not most collect a variety of fees and charges, and some, probably principally urban communities, receive considerable amounts from publicly operated utility services such as water supply, rapid transit, and electricity. Money from other gov-

Table 2. Taxes and Other Governmental Revenues Collected, by Source and by Level of Government, Fiscal Year 1957[1]

	State	Local	State-local	Federal	Total
	(billions of dollars)				
Individual income	$ 1.6	$ 0.2	$ 1.8	$35.6	$37.4
Corporate income	1.0	[2]	1.0	21.2	22.2
Sales, gross receipts and customs:					
Customs duties	—	—	—	0.7	0.7
General sales and gross receipts	3.4	0.7	4.0	—	4.0
Motor fuel	2.8	[3]	2.9	1.5	4.3
Alcoholic beverages	0.6	[3]	0.6	2.9	3.5
Tobacco products	0.6	[3]	0.6	1.7	2.3
Other selective sales and gross receipts	1.1	0.3	1.4	4.3	5.7
Total	8.4	1.0	9.5	11.1	20.6
Property	0.5	12.4	12.9	—	12.9
Other					
Motor vehicle and operator licenses	1.4	0.1	1.5	—	1.5
Death and gift	0.3	[3]	0.3	1.4	1.7
Other	1.4	0.6	1.9	0.5	2.5
Total	3.1	0.7	3.7	1.9	5.6
"Social security" taxes					
Old age, survivors' and disability insurance	—	—	—	6.9	6.9
Unemployment compensation	1.7	[3]	1.7	0.1	1.8
R.R. retirement	—	—	—	0.6	0.6
Total	1.7	[3]	1.7	7.5	9.3
TOTAL TAXES	$16.3	$14.3	$30.5	$77.4	$107.9
Other revenues					
Charges and miscellaneous receipts	1.9	3.6	5.5	8.6	14.1
Utilities (water, gas, transit, etc.)	—	2.9	2.9	—	2.9
Employee payments to retirement systems	1.1	0.4	1.5	0.6	2.1
Other "insurance trust"	0.4	—	0.4	0.5	0.9
Liquor stores	1.1	0.1	1.2	—	1.2
From other governments (largely grants-in-aid)[4]	3.9	7.5	3.8	—	—
Total	8.4	14.6	15.4	9.7	21.2
TOTAL REVENUE	$24.7	$28.9	$45.9	$87.1	$129.2

Source: U. S. Bureau of the Census, Governments Division, *Compendium of Government Finances*, July 1959.

[1]Detail may not add to total due to rounding.
[2]Included in individual income tax.
[3]Less than $0.05 billions.
[4]These intergovernmental transfers are cancelled out of totals; state-local totals include only receipts from federal government.

REVENUES OF STATE GOVERNMENTS, 1957

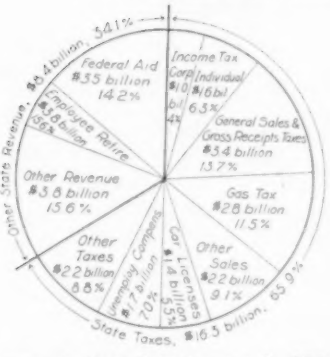


Figure 6. **United States total—$23.7 billion**



Figure 7. **New York State total—$2,336 million**

ernments, largely state and federal aid, was a substantial local revenue item ($7.5 billions), comprising 26 percent of total revenue.

State taxes are more diversified than local. General sales or gross receipts taxes yielded more than any others ($3.4 billions), but accounted for only 21 percent of the total ($16 billions). This ratio is of course higher in some states; other states do not use these taxes. Individual and corporate income taxes totaled $2.6 billions, 16 percent of the total, and again the pattern varies among states from no such taxes to substantial collections.

REVENUES OF LOCAL GOVERNMENTS, 1957

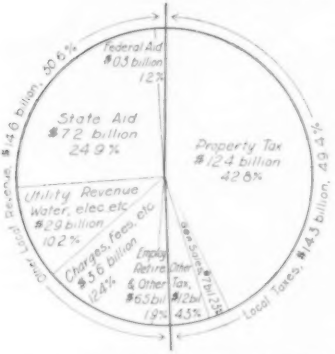


Figure 8. **United States total—$28.9 billion**



Figure 9. **New York State total—$4,263 million**

All states employ the two principal highway user levies at varying rates —the motor fuel tax, and motor vehicle and operator license fees. For the most part, these levies are viewed as benefit taxes, and used to help finance state and local highway construction and maintenance. The unemployment compensation tax ($1.7 billions) is paid into trust funds for insurance benefits. Other state taxes include excises on alcoholic beverages, tobacco, and other commodities and transactions.

State non-tax revenues include a variety of fees, charges and miscellaneous receipts ($1.9 billions), revenues from state operated liquor stores ($1.1 billions), employee contributions to retirement systems ($1.1 billions), and receipts from other governments ($3.9 billions). Of the latter, $0.4 billions came from local governments in some states, and $3.5 billions from the national government, largely as federal aid.

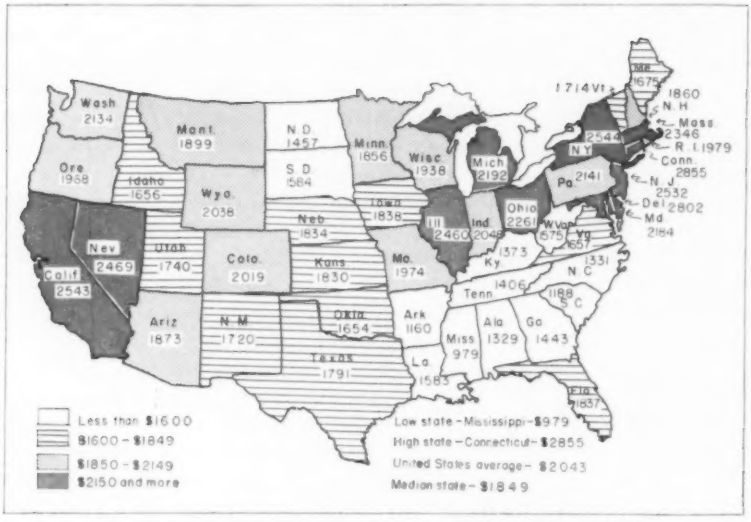
Comparisons with the federal tax system are essential in considering state–local finance, in part because federal levies are on the same taxpaying public. The national government relies heavily on the individual and corporate income taxes. Next largest taxes are those paid into the social security trust funds. The national government, like the states, also levies on alcoholic beverages, tobacco products, motor fuel and a variety of other commodities, but does not make a general impost on sales.

INTERSTATE VARIATIONS IN TAX BURDENS

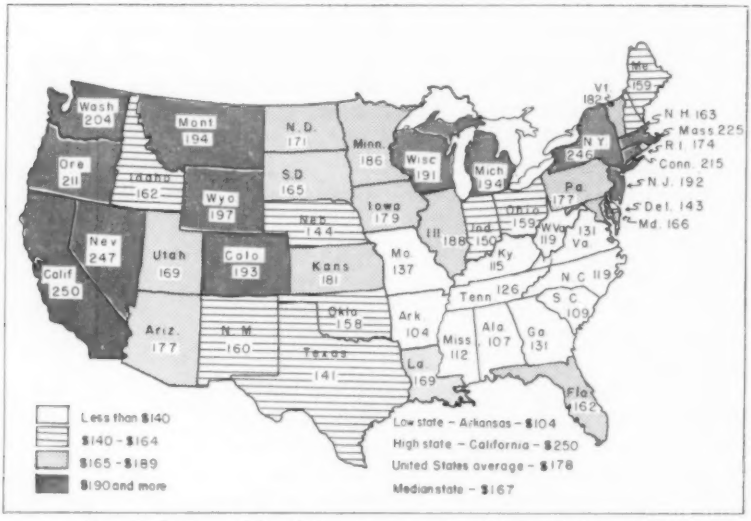
State and local taxes per capita averaged $178 in 1957, and ranged from $104 in Arkansas to $250 in California (map 1). They were generally low in the Southeast; they were high on the West Coast, and in some states of the Northeast, the Great Lakes and the Rocky Mountains. New York at $246 ranked third highest after California and Nevada.

In many of the states in which taxes per head were high, personal incomes per capita have also been large (see map 2). Personal incomes per capita averaged $2,043 over the United States in 1957; the average in the low state (Mississippi) was $979 and the high state (Connecticut), $2,855. Incomes per person were low in the Southeast, and high in the industrial states of the Northeast, Midwest and West Coast. New York ranked third highest after Connecticut and Delaware, with California a close fourth.

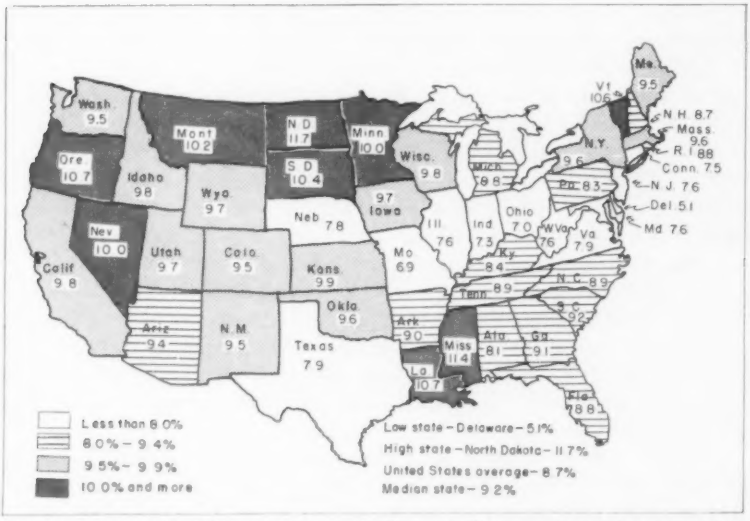
State and local taxes as a ratio of personal incomes averaged 8.7 percent over the United States, and ranged from 5.1 percent in Delaware to 11.7 percent in North Dakota (map 3). Geographic concentrations of high and low states according to this measure are less clear than for taxes per capita. New York at 9.6 percent fares better by this measure because personal incomes are high here. It ties for 17th from highest place with Massachusetts and Oklahoma.



Map 1. Personal income per capita, United States, 1957



Map 2. State and local taxes per capita, United States, 1957



Map 3. State and local taxes in percent of personal income, United States, 1957

Reasons for Variations

Many factors, some clear and some obscure, account for interstate and intercommunity variations in amounts of state and local taxes collected. It is possible to suggest a few:

1. The more people there are in a state, other things being equal, the more it costs to provide the output expected of state and local governments. There are more children to educate, more mental patients in state and local hospitals, more cars to use public roads, more prisoners in penitentiaries, and so on. New York has more people than any other state, and its state and local governments collect more taxes in total than elsewhere.

2. The better off economically the people of a state are, the more they feel they can afford governmental as well as private goods and services. Many of the purposes for which taxes are spent in New York, where incomes are large, reflect high standards of service compared with most other states. Thus school outlays per pupil typically average the largest in the nation while authorities also consider the quality of education to be high.

3. In some relatively sparsely settled areas, taxes are probably high, even though public services are modest, because costs per person are high. If few people use or live along a public road, the cost per head of maintaining the road is likely to be large. If a school has only a few pupils for

a teacher to teach, school costs per pupil tend to be substantial. Sparsity of population probably helps to account for relatively high taxes in some of the Rocky Mountain and Great Plains states.

4. Governments in some areas levy taxes to perform services that elsewhere would be provided by private means or not at all. Thus most farmers and rural dwellers must furnish their own water supply, sewerage, and vehicles for transportation. In large urban communities these facilities, including rapid transit, are often financed and operated through a government at least partly by taxes. Many states such as New York, where average personal incomes are high, contain heavy urban concentrations.

5. Taxes in some areas are moderate, compared with similar areas, partly because the voters or their representatives appear to have chosen relatively low standards of public service. They have kept taxes low, as well as the kinds and quality of things done by government. This may be true in Delaware where taxes as a ratio of incomes are the lowest of the states, and taxes per capita relatively low.

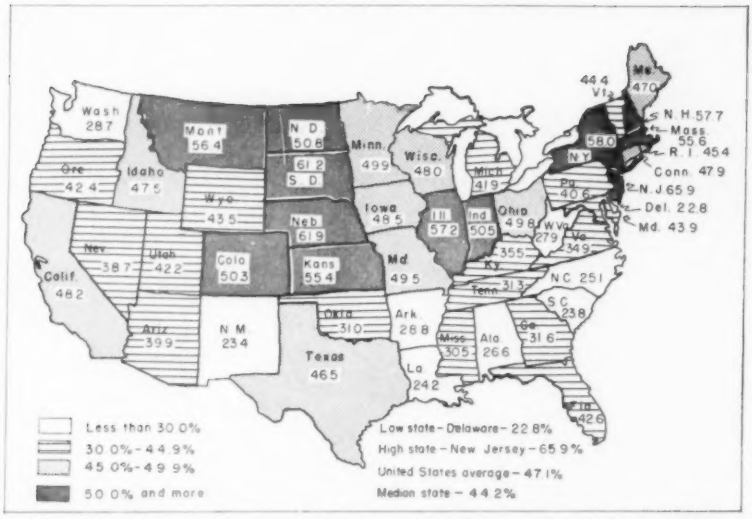
6. Costs (and taxes) per unit of service may be relatively high in some areas because of wage and other price differentials. New York appears to be among the high wage and price areas.

7. The efficiency of performing given levels of service or kinds of work probably differs substantially among states and communities. There is undoubtedly wide variation in such things as appointments and promotions to public jobs according to ability to produce high output, effectiveness in organizing local and state governments and departments to get work done, purchase and use of equipment and materials to maximum public advantage, and so on. While New York governments have plenty of room for improvement, more attention has been paid to efficiency than in many other states.

Interstate Variations in Federal Taxes

It would be highly useful to add federal taxes to state and local for interstate comparisons, partly because they are much larger amounts. One immediately encounters questions, however, of who really pays federal taxes. In other words, what is the incidence among states of national taxation?

This query rapidly leads to a never-never land of conjecture, conflicting theory, lack of data, and violent argument. It may be possible to agree upon allocations of individual income taxes according to the state of residence (or source of income!) of those paying the taxes. But who really pays the cigarette tax, actually levied upon manufacturers? Corporation headquarters in New York or Delaware may send a check for the corporate income tax, but upon whom does the burden of this tax finally fall—the



Map 4. Local taxes in percent of state and local taxes, United States, 1957

consumer, early or late in the chain of distribution; the workers; the stockholders; or some variable combination of all three?[2]

A little less than half of federal taxes come from those on individual incomes, and rates are rather steeply graduated as income rises. Many people in high income states pay a relatively high percentage of their incomes on this part of federal taxes, and relatively a still higher amount per capita. The take from this tax alone exceeded all state and local taxes in 1957. New Yorkers bear a comparatively large share of this one major federal levy. The pattern for other federal imposts is less clear.

Differences in Local Tax Burdens

Local taxes totaled $14.3 billions in 1957, compared with $16.3 billions of state taxes. The ratio of local levies to combined state and local was 47 percent. This ratio varied in the extreme from 23 percent in Delaware to 66 percent in New Jersey (map 4). Local governments, therefore, are much more important in the New Jersey state–local finance situation than in Delaware. Other states, where local taxes are a relatively high proportion of the state–local total, appear to be located primarily in the Great Plains,

[2]For a concise discussion of tax incidence, see Selma J. Mushkin, "Distribution of Federal Taxes Among the States," *National Tax Journal*, June 1956.

Northeast and Midwest. The low states in this respect are mostly in the Southeast but include a few others elsewhere. New York at 58 percent ranked fourth highest after New Jersey, Nebraska and South Dakota.

The high proportion of urban population in New York seems to influence importantly the large amounts of local taxes collected here, both in total and per capita. For example, we may compare collections in New York City, by far the largest urban concentration, with those in the rest of the State. Selected tax totals for 1957 follow:*

	New York	New York City	Rest of State	United States
Amounts per capita				
State taxes	$ 103	——	——	$ 94
Local taxes	143	$166	$123	84
State-local taxes	246	——	——	178
Personal income per capita	$2,544	——	——	$2,043
Ratio of taxes to income				
State taxes	4.0%	——	——	4.6%
Local taxes	5.6	6.1%	4.9%	4.1
State-local taxes	9.6	——	——	8.7

*Source: Federal Census Bureau.

State taxes in New York were moderately above the national average on a per capita basis, and below average as a ratio of personal incomes. Local taxes were substantially above average, both per capita and as a percentage of personal incomes. Those in the largest urban center, New York City, were markedly higher than the average for the rest of the State.

Another reason for the high ratio of local to state taxes in New York is that this State has relatively strong home rule attitudes. The State has delegated comparatively large financial and other responsibilities to local governments.

The countrywide importance of local taxes relative to state taxes has lessened during the past decades. In other words, state taxes have grown more than local, and federal taxes, as already seen, have grown much more than state or local. The relative shrinkage of local taxes compared with state has been most pronounced in the Southeast, and scattered states elsewhere. It has been least in the Northeast (including New York), the Midwest, Great Plains and a scattering of other states.

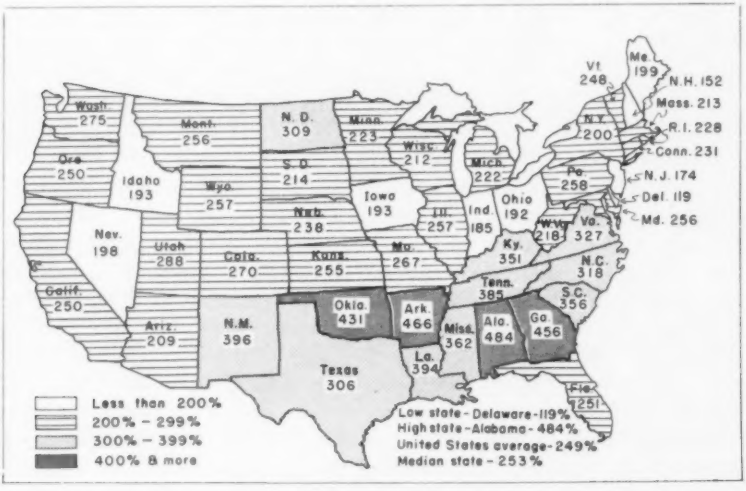
Changes in federal, state and local expenditures do not correspond closely with those in taxes, partly because federal and state governments transfer some of their revenues to lower governments as federal and state aid and in other ways discussed later.

Tax Burden Changes Among States

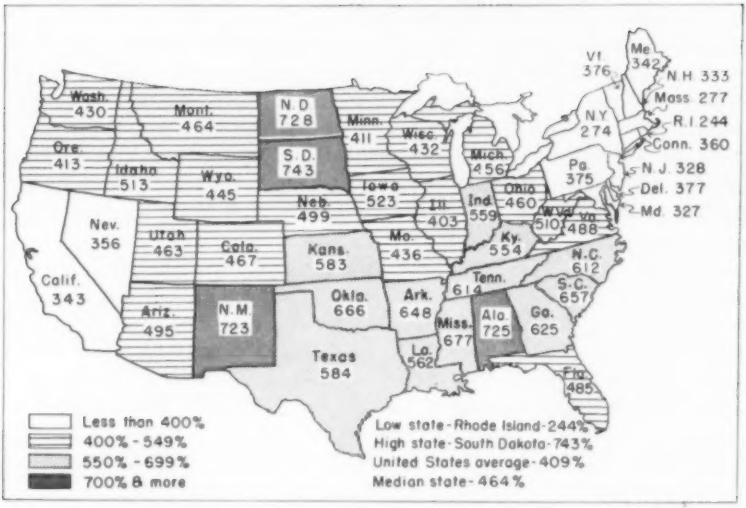
State and local taxes *per capita* or *per person* increased about three and one-half times (249 percent) in the United States over the 25-year period between 1932 and 1957. The growth ranged among states from 119 percent (over two times) in Delaware to 484 percent (almost six times) in Alabama (map 5). Increases were greatest from the Southeast on west to New Mexico; they were least in the Northeast, most Great Lakes states and scattered states elsewhere. Tax growth in New York at 200 percent (three times) was substantially less than the countrywide average.

Personal incomes per capita also rose most sharply over this period in the Southeast west to New Mexico, and in the Dakotas (map 6). Growth was least in the Northeast, and in California and Nevada, with New York showing next lowest percentage gain to Rhode Island. In more recent years, income growth per capita has slackened in many of the southern states compared with the rest of the country; New York, other Northeastern states, and California have fared better.

Personal incomes per capita increased more than state–local taxes in New York between 1932 and 1957. In the race between income and taxes, however, New York did poorly compared with all but a few other states.



Map 5. Percent increase in state and local taxes per capita, United States, 1932 to 1957



Map 6. Percent increase in personal income per capita, United States, 1932 to 1957

A GLIMPSE AHEAD

The future course of taxes hinges importantly upon the services expected of state and their local units, with due allowance for the waste, inefficiency, chicanery and cussedness that is present in government as well as in other human affairs. Some communities will get along with the minimum possible public expenditure. Others will demand substantially higher standards of public service than the best offered at present.

Competent analysts predict generally there will be considerably higher state and local spending over the next several years. One forecast, for example, envisions expenditures by 1970 almost double those of 1957, if present economic and population trends continue, prices are stable, and no drastic change occurs in the international situation.[3] At the same time the gross national product is expected to increase almost as greatly so that the ratio of state and local spending to the nation's production might rise only slightly. These predictions are for the nation as a whole, and of course are subject to wide variation among individual states and communities, depending upon many factors including public demand for things to be done by government.

As already cited, education is commonly the major purpose of local–

[3]Lubar, Robert and Charles E. Silberman, "The Taxes Closest to Home," *Fortune*, June 1959.

state expenditure. A census forecast sees a 29 percent increase in children of elementary school age between 1957 and 1970, a 56 percent gain in the high school age group, and 63 percent in the college age. Children have tended to spend more and more years obtaining an education. Higher proportions of those of high school age thus enter and finish high school, and a higher proportion of the college age go on to post high school institutions for longer periods. On top of these factors is the demand for improved quality and scope of education in many communities. Short of a major catastrophe or sudden and striking increase in efficiency, a rapid growth of school outlays seems inescapable. Again the statistics cited are averages subject to wide variation among states and localities.

Highway maintenance and construction, another important state–local function, almost certainly will require more money over the next several years. The basic factors are the fantastic rise in traffic and the growing dependence upon automotive transportation as a necessity of life, together with the lull in construction during most of the '30s and '40s. Construction needs are not limited to the widely publicized and extremely expensive interstate highways, but extend to local rural roads and relief of urban congestion. A bulk milk tank truck or custom lime spreader is not of much use if it cannot reach the farm because the road was made for a Model T. The Federal Bureau of Public Roads reports passenger and bus travel on main rural highways up 26 percent between 1951 and 1956; travel by single unit trucks up by 22 percent; travel by truck combinations up by 27 percent. Average loads of single unit trucks, it estimates, grew 28 percent from 1.9 tons in 1936 to 2.4 tons in 1956; loads of truck combinations increased from 6.9 tons in 1936 to 11.5 tons in 1956, or by 67 percent. Bulk milk tank trunks with a gross loaded weight of 20 tons and more now pick up milk at some New York dairy farms.

Nor does the end seem to be in sight for growth of public welfare expenditures, the third typically major cause of local–state outlays in rural areas. The scope of aid to the needy depends importantly upon what the public considers to be needed. Need is a relative term, and appears to relate to standards of living. These standards, as for education and highways, have been rising, and will continue to do so if current predictions of GNP growth are reliable. It was once confidently foreseen that social insurance provided under the terms of the Federal Social Security Act would curtail Old Age Assistance and other forms of public assistance. These forecasts of the past have been belied by experience. While the numbers receiving help, particularly under Old Age Assistance, have reacted to the expansion of Old Age, Survivors', and Disability Insurance, expenditures have been maintained and increased.

If one includes under public welfare such public activities as hospital and medical care, then prospects for growth of expenditures are even more clear. Recent census projections forecast a 32 percent increase in numbers of people 65 or more years old between 1957 and 1970, and a 25 percent growth in total population. Striking and rapid advances have been developed in medical care, and costs have also risen steeply. An important part of state and locally provided or financed medical care is the operation of mental hospitals.

The fragmentary evidence presented here should make clear that state–local expenditures are destined for substantial growth under the assumptions set forth above. The rate of growth will continue to vary widely among states and communities, and will depend importantly upon what the people of each state and locality decide they want within the framework of economic, social, and political possibilities.

HOW WILL WE GET THE MONEY?

Money to finance the probable growth in local and state expenditure must come from local, state or federal tax and other revenue, from borrowing, or from a combination of these sources. There are practical limits, however uncertain, on the amounts of state and local borrowings that lenders will absorb.

Fortune magazine, as cited, has predicted a growth rate in state–local expenditures that could exceed slightly that of gross national production. Others anticipate expenditure growths running at rates from substantially less than the GNP to substantially more.

If assumptions underlying most predictions were to eventuate, we might accumulate needed taxes and other revenues in state and local treasuries with no more than the usual anguish. As average incomes rise, we could meet taxes out of some of this additional income.

One of many jarring notes relates to the assumption of constant price levels. If inflation, instead of stable prices, should continue over several years, the forecasters expect that this factor would hold down government outlays in dollars of constant value, *i.e.*, appropriating bodies generally would not increase appropriations enough to make up fully for inflationary influences. But the effect upon state and local tax collections would be even more depressive, so that the gap between expenditure and revenue could become generally serious. For example, although prices of goods and services to governments would be pushed up by inflation, the yield of a property tax at a constant rate on assessed value would provide progressively less purchasing power in most tax jurisdictions as assessors fell behind in the struggle to raise assessed values proportionately with market values.

The forecasters have apparently considered what might happen in the event of deflation too remote or too difficult a prospect to contemplate.

The individual income tax, when equipped with progressively higher rates upon higher levels of income, has a built-in elasticity factor that responds to both inflation and real GNP growth (as well as the reverse). As average incomes rise, they are taxed at higher average rates. Unless demands on the exchequer outgrow the rate structure, legislators can avoid that exceedingly unpalatable subject, a rise in formal (as distinguished from effective) tax rates. This works to the advantage of the national congress and legislatures of those states, including New York, with a graduated income tax.

Sales taxes levied *ad valorem*, or at a uniform percentage of value of sales, also respond to dollar sales growths (and declines), although the response is understandably less elastic than a graduated income tax. Selective taxes levied at specific rates of so much per physical unit, such as on packs of cigarettes or bottles of liquor, are still less responsive.

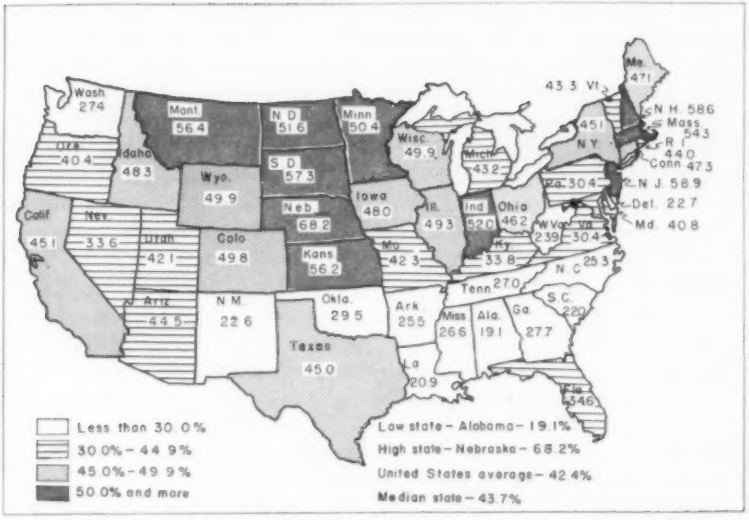
Some evidence has been reported to show that the property tax base may be more responsive than is sometimes assumed to secular or long-term changes in the GNP, as distinguished from disastrous deflation such as in the early '30s, and sharp or prolonged inflation. If inflation is assumed away, the property tax looks better from the standpoint of tax productivity at a constant tax rate than is often thought, and may be as responsive as the general sales tax. But inflation has been part of post Second World War experience, and many find it hard to depend upon its absence from the picture of the next decade or more.

THE PROPERTY TAX

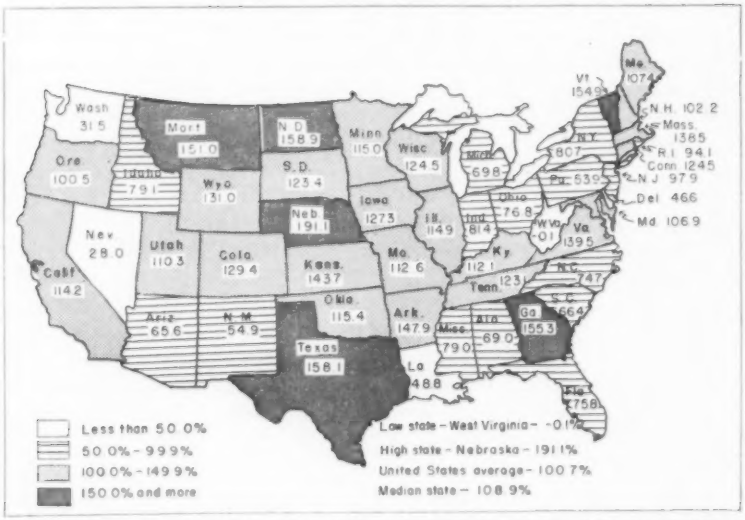
The property tax is by far the leading impost of state and local governments in amounts collected as already seen, although its relative importance among taxes has been shrinking. This levy accounted for 42 percent of all state and local taxes across the country in 1957, although its importance ranged from 19 percent in Alabama to 68 percent in Nebraska (map 7). New York was slightly above the national average, at 45 percent.

In the 25-year period between 1932 and 1957, property taxes increased by 101 percent, or about doubled, in the United States. The range among states in this respect was from a negligible *decrease* in West Virginia to almost a tripling (191 percent increase) in Nebraska (map 8). The growth in New York (81 percent) was somewhat less than the national average.

As shown on map 4, all state and local taxes increased between 1932 and 1957 by 249 percent (about three and one-half times) in the United States; and by 200 percent in New York. Each of these increases is much



Map 7. Property taxes in percent of total state and local taxes, United States, 1957



Map 8. Percent increase in property taxes per capita, United States, 1932 to 1957

greater than those in the property tax alone. The latter is relatively less important than formerly among all state and local imposts, although it is still a major tax.

The state governments as a group make little use of the property tax. State collections in 1957 were less than $0.5 billions of the total state–local figure of $12.9 billions. In only three states (Nebraska, Wyoming and Arizona), were property taxes more than 10 percent of all state taxes. Most depend upon it to a minor degree or not at all, although it was once relied upon much more than at present.

The property tax is primarily a local tax, levied and largely administered locally. In probably most of rural America, it is the only local tax of fiscal consequence. It is tied importantly to public school finance because by far the largest part of school expenditures is made by local governments, schools are by far the most expensive local function, and this tax yields the bulk of locally provided school revenues.

Is It Fair?

As a device for dividing costs of government among taxpayers with reasonable fairness, the property tax probably was considerably better in the first half of the 19th century than today. Property consisted much more largely of real estate and tangible personal possessions closely associated with the owner and relatively easy for assessors to discover and value, compared with the many and complex forms of property today, particularly intangible personalty such as securities and bank accounts. Property in those days probably was a better measure of ability to pay taxes than an income tax would have been, partly because income would have been difficult to measure and the tax extremely hard to administer. The property tax may have measured benefits received from the tax better than is the case today; a principal expense of many jurisdictions probably was protection of property and persons through courts and policing, or maintenance of law and order, plus the making of some public internal improvements.

Today, taxation of net worth, or the value of property owned less the claims against it, might make some sense in the name of equity, but the property tax has become a crude and lopsided approximation of this measure. Large amounts of property are excluded by law or by practice from the tax base. Intangible personalty, whether or not included by law, is actually generally exempt because of the practical difficulties of discovering and subjecting it to taxation. All or various kinds of tangible personalty are exempt by law, or, where not exempt, are so difficult to include in practice that much of it escapes taxation. New York has exempted all personalty by law since 1933 after generations of decline in the practical

application of the tax to this category of property. Before and since, it has added to the lengthening list of exemptions of real property from the real estate tax. Countrywide, the exemptions are a maze with which probably no man is thoroughly familiar.

Fairness may be questioned also because study after study has shown that high value properties are typically under assessed compared with those of low value. In some areas including many New York towns, farm properties have been shown generally to be over assessed relative to other kinds of property.[4]

Many other questions may be raised concerning whether the present day property tax generally measures ability to pay or benefits received with reasonable accuracy.

This is not to say, however, that the other major taxes are perfectly fair. All have serious defects.[5] We might depend almost entirely on the income tax except for this fact. In the real world we hedge our bets and hopefully minimize injustice in one tax through some dependence on other imperfect levies.

We shall not abandon the property tax in the foreseeable future. Even if we were to do so with some celerity, the resulting windfall to property owners in higher real estate values would not be fair either. In the meantime we would do better to improve administration in order to improve equity.

Poor Assessments

> The property tax has its limits, but we crowd those limits more rapidly as we compound the inequities by allowing too great a spread between one taxpayer and another. We hear quickly from the guy whose real complaint is not that all taxes are too high, but that his own taxes are too high because he is being over-assessed in relation to others.[6]

The inequities arise from two factors among others. One is the lack of reasonable equalization among properties within an assessing jurisdiction such as a county or township (in New York, the town, village and city except in Nassau County). A second is the lack of reasonable equalization among assessing jurisdictions when taxes or state aid are divided among more than one assessing jurisdiction and are based wholly or partly upon assessed values.[7]

One important problem in equitable assessment over much of rural

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[4]See, for example, Floyd L. Corty, *Comparative Levels of Assessment for Farms and Rural Residences in 15 New York Towns, 1954*, A.E. 996, Department of Agricultural Economics, Cornell University, July 1955.

[5]See, for example, *The Federal Revenue System: Facts and Problems, 1959*, (Materials Assembled by the Committee Staff for the Joint Economic Committee, Congress of the United States), 86th Congress, 1st Session, Joint Committee print.

[6]Johnson, Byron, "Trends in Public Finance," *Proceedings—Financing State Services*, Montana State College, Dec. 15–16, 1958 (Mimeo.).

[7]For a discussion of assessment improvement in rural New York, see E. A. Lutz, *Property Taxes and Assessment—Assessment Practices and Issues*, Public Policy Discussion Leaflet 3, Department of Agricultural Economics, Cornell University, April 1956.

America is the lack or trained, experienced, well-equipped and adequately paid assessors. In some states a contributing factor to this situation is the lack of sustained and substantial state interest in supporting equalization both among local jurisdictions and within them. This may arise in part from decline of state dependence upon the property tax as a source of state revenue. At the same time, some states badly need reliable equalization as a basis for disbursement of state aid in partial support of education and for other purposes.

In New York, the State Board of Equalization and Assessment has taken relatively vigorous action over the past decade to maintain equalization among assessing jurisdictions by revising and regularly reappraising an equalization rate for each town, city and village. The rate is a percentage figure expected to represent the average percent of full value at which assessors in each assessing district value properties. The Board has also encouraged assessors in a number of ways to assess properties in their districts at uniform percentages of full value. Local assessments, however, depend on local action and local public support, and much room remains for improvement.[8]

Local Variations in Tax Resources

There are extreme variations among local governments in taxable resources in relation to the services to be financed. This difficulty is less indicative of weakness in the property tax as a source of revenue than of its associations with local government. The resources of many small areas are likely to vary more than those of the few large areas of which the small are a part. Among the 932 towns (townships) in New York, the full value of taxable property in 1957 ranged from less than $300,000 to almost $2,800,000,000.

It is probable that the variations have been becoming more extreme as economic activity and wealth in taxable property concentrates in industrial centers. This should not imply, however, that urban areas are always well endowed with taxable resources relative to services. Among local jurisdictions feeling the pinch of tax base versus services are the residential settlements on the edges of metropolitan areas. A school district (Levittown) in the high New York town cited above reported last year one of the highest school tax rates in the State. Its outlays per pupil were near the State average, but its tax base per pupil was substantially below average. This is a district of homes containing moderate income families with children now of school age. The industrial and commercial base on which these families depend for a living is located elsewhere in the New York metropolitan area.

[8]See First Report: Assessment Advisory Committee to the New York State Board of Equalization and Assessment, *A Look at Real Property Assessment*, (1957?).

Farmers located in areas on the rural-urban fringe often face similar difficulties as residential developments bring with them a relatively low tax base per head and enlarged demands and responsibilities for government services.

At another extreme are the sparsely settled areas of declining population, and there are many of them. As people move out, the tax base dwindles, at least relatively, and costs of services mount both per head and as a percentage of the tax base. In almost half the towns of New York, there were fewer people in 1950 than a hundred years earlier. In more than one-fifth of the towns, population declined between 1940 and 1950.

After this recital, is there any category that is relatively well off? One includes those locations containing valuable industrial developments often providing many of their own services (*e.g.* water supply and waste disposal) and lacking a concentrated residential population.

Some contend that the variations in tax resources among local governments are too great to be reasonable and should be equalized, or more nearly equalized. A strongly supporting and related contention is that many existing local units are too small for effective administration of modern government services. Some propose to kill two birds with one stone by consolidation and elimination of many local governments. Others would seek the same end by less drastic alternatives. As already seen, school district consolidation has been occurring on a sizable scale in many states including New York.

We could obviously eliminate intercommunity variations in tax resources by consolidating them into one tax district—the state (or nation). In a sense, this has been happening on a gradual scale in different ways: through federal and state assumption of responsibilities for functions once largely a local responsibility; through use of some proceeds of federal and state taxation for financial grants to local governments; through attaching conditions to these grants that control their expenditure in important ways; and through attempting to provide some such grants more generously to areas deficient in tax resources relative to services, as in state aid for schools.

Legal Restrictions

Restrictive provisions in state constitutions and laws can and do hamper reasonable use of the property tax. During the depression of the '30s especially, but also earlier in our history, there has been reaction to property and other taxation levels that were regarded as excessive. True to our traditions, some felt that an effective way to correct this was to "pass a law," or better yet, to take tax policy out of the hands of "those politicians" and put it in the state constitution. Today we find constitutional ceilings on property tax rates and other matters that seriously curtail

authority of local and state officers to meet responsibilities they are otherwise expected to discharge. The results have been, not to hold down taxes, as has been seen, but to find sometimes tortuous ways of avoiding barriers embedded in basic law. A fresh look at some of these provisions might further the objective of fairer taxation.

ALTERNATIVES TO THE PROPERTY TAX

> What are the requirements of a 'good' tax? To some people the only 'good' tax is a tax that somebody else will pay....A good tax system should:
>
> (1) distribute the cost of government with reasonable fairness among all people who receive benefits from government services and who have taxpaying ability;
>
> (2) be readily understood by the taxpayer and as convenient for him to pay as possible;
>
> (3) be relatively easy to administer to minimize administrative complications;
>
> (4) be difficult to evade or avoid;
>
> (5) provide adequate revenue for the needs of local, state and federal government;
>
> (6) be flexible enough to meet changing conditions;
>
> (7) be widely shared;
>
> (8) interfere as little as possible with the private production of wealth.[9]

As already seen, the property tax is the most important single impost collected by either state or local governments. Many of the state taxes, and some local, have been developed over perhaps the past 100 years as alternatives to heavier property taxation. Today all but a few states have left this tax largely or entirely to local governments.

Alternatives to local use of the property tax, adopted in some or all states, include the following:

1. State grants of power to localities to levy taxes other than on property.
2. Sharing state-collected taxes with localities from which the taxes are paid.
3. Sharing state-collected taxes through state grants-in-aid, either for specific programs (such as helping physically handicapped children) or for general local purposes.
4. Sharing federally collected taxes through federal grants-in-aid for specific programs.
5. State or federal direct assumption of some fiscal and administrative responsibilities of local governments.

Alternative Local Taxes

The question of state grants of broader taxing power to local governments is closely associated with the pattern of local units. The property tax has probably been better adapted than any important alternative tax for use by small local governments and by overlapping layers of these units.

[9]Wood, Garland and William Heneberry, *Michigan's Tax Problem Is You*, (Open Meetings on Agricultural Policy, No. 22, 1958, Michigan State University, Department of Agricultural Economics).

In addition to property taxes, some local governments do levy taxes that are important sources of revenue. They include primarily taxes on general sales or gross receipts, and on income. Local units using these taxes with some success, however, appear to be those of more than average size. They usually include at least roughly the area of a natural community or a commercial and trading center of the community. Probably most frequently they are sizable cities, or counties that include cities within their area. These are among the local governments that have felt the pressure of costs upon revenues most keenly.

The New York State Legislature has authorized counties and cities to levy a retail sales tax,[10] and a number of other imposts that are less important revenue producers. The counties using the retail sales tax include Broome (where the City of Binghamton is located), Chemung (where Elmira is located), Erie (cities of Buffalo, Lackawanna and Tonawanda) and Monroe (Rochester). The cities include Auburn, New York, Niagara Falls, Poughkeepsie, Syracuse, and Watertown.

How equitable are the alternatives compared with the property tax? The general tax on retail sales is commonly considered regressive, *i.e.*, it falls proportionately more heavily upon a family with low income than upon one of high income. Studies have found its regressivity greatly modified when food (and of course rent) is exempt from tax, as is the case in New York. The property tax, moreover, commonly has the same characteristic. An objection to the gross receipts tax on business transactions is the inequity resulting from taxing each transaction in the chain of distribution of goods and services. The tax bears no relation to profits of a business enterprise and penalizes businesses with large receipts and small profits. The income tax as used locally is typically at a flat rate on earned income alone, and is therefore also said to be regressive. The regressivity of these taxes tends to be offset to some degree by the federal (and state) individual income tax, the major revenue producer in the United States.[11]

Equity also depends upon effectiveness of enforcing collections; again this relates partly to pattern and size of local units.

Other local taxes in some use include taxes on sales of specific goods or services, licenses and per capita levies.

For those who question whether local administration can collect the types of taxes discussed as effectively as a larger unit, a few states have devised an alternative. Localities that have been empowered to levy a sales tax are required to have it collected by the state. This arrangement leaves fiscal responsibility for levy of the tax with the locality. It does not, of

[10]For a discussion of the retail sales tax, see M. Slade Kendrick, *County and City Retail Sales Taxes in New York*, Public Policy Discussion Leaflet No. 5, Department of Agricultural Economics, Cornell University, December 1958.

[11]For an analysis of experience with these alternative local taxes, see Frederick D. Stocker, *Nonproperty Taxes as Sources of Local Revenue*, (Cornell University Agr. Exp. Sta. Bulletin 903, Dec. 1953).

course, contribute toward equalization of financial resources between local governments that are well endowed with taxable wealth or income and those that are not. It does provide localities with broader powers to tax the resources within their boundaries.

There has been some current talk in New York of asking the Legislature to permit federations of school districts or other local governments to levy a state-collected tax upon personal incomes.

State-Shared Revenues

Another perhaps more common step toward state responsibility for local finance has been sharing state-collected, statewide taxes in whole or in part with local governments in the areas from which the imposts are derived. An objection to these measures is that state revenues are not allocated among local units according to need but according to geographical source of collections. The local government receives the funds without responsibility for having to levy the tax itself.

This objection was met in part in New York soon after the Second World War when it substituted a general, annual, per capita allocation to cities, towns and villages for several state-shared taxes. Population was considered as good a general measure of need as could then be found and accepted.

State Aid

Sharing state-collected taxes through grants-in-aid to local governments has become a more and more important source of local revenues in recent decades. In a sense, it constitutes a middle ground between leaving financial, administrative and political responsibility for a function primarily with local governments, and having the state assume responsibility directly.

The state typically pays the grant to local governments. Local governments must use the money for a specific function, put up some of the funds themselves, and meet other conditions in performing the function subject to supervision by a state administrative agency. The grants vary widely among states in functions aided, relative amounts of funds provided, formulas under which they are allocated, conditions required, and vigor with which the conditions are enforced. Generally, the functions, funds, and conditions have been growing.

A common method of sharing costs between state and locality is a 50–50 or other flat matching percentage. Devices have often become more sophisticated and complicated in an effort to gauge grants according to fiscal need. This is particularly the case with state aid for local schools where formula complexities sometimes threaten to outwit their makers. The necessity of equalizing grants for schools is stronger than for other functions partly because it is the preponderant local public expenditure, and

partly because of the multitude of small school districts in some states with consequent extremes of local tax resources.

The grants-in-aid are thus more adaptable to equalizing among local governments' fiscal burden of performing the aided services than state-shared revenues or locally levied taxes. They also serve as channels for opening to localities the generally broader taxing powers of the state.

This latter purpose may also be approached by an unconditional general grant such as the New York per capita allocation cited above. Although much discussed, this type of subvention has been little used so far in the United States.

Federal Aid

Sharing federally-collected taxes through grants-in-aid also is an increasingly important and complex alternative to local property taxation. Like state aid, it may be considered as a middle ground between relatively complete state responsibility and federal. Most grants are made to states rather than directly to local governments. The states may in turn pass the funds on for local expenditure supplemented by state aid, as in the public assistance programs in some states. They may alternatively administer the programs themselves.

Federal grants, very broadly speaking, are somewhat similar to state grants in form and conditions.

Consideration of problems surrounding both federal and state aid is a well-plowed field. As the concentration of government power and finance proceeds, it generates friction flaring into political controversy that is duly studied and recorded by the more academic.[12]

An alternative that has had some support, is that the national government withdraw from certain tax fields suitable for state or local use and reduce its grants in comparable amounts for programs considered best adapted to state–local operation. The federal admissions tax is an illustration. Some states would benefit financially more than others from such action because the ratio of program outlays to the taxes varies from state to state. Neither Congress nor the states have demonstrated enthusiasm for these proposals, but have seemed to move toward more federal aid for more programs.

Amounts of State and Federal Aid

Federal aid and other subventions amounted to 10 percent of all state and local general revenues in 1957.[13] The range among states was from

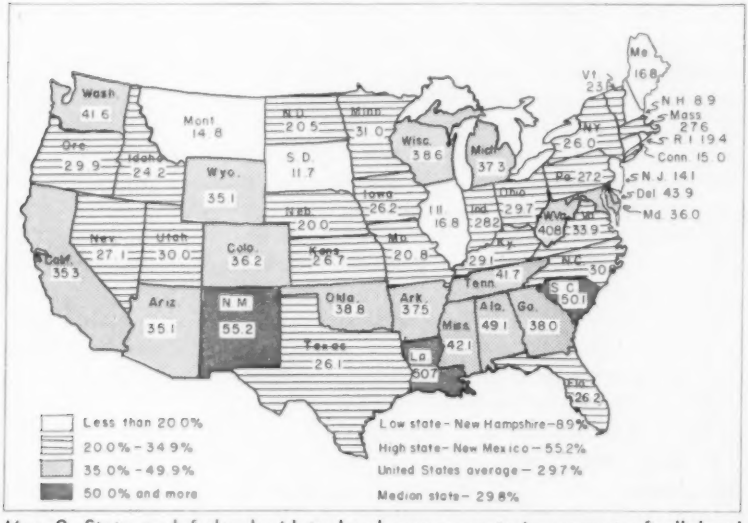
[12]A notable study of federal grants and state and local finance problems was reported by the Commission on Intergovernmental Relations in *A Report to the President for Transmittal to the Congress*, June 1955.

[13]"General revenue," according to the Federal Census Bureau which compiled these figures, includes grants-in-aid, taxes, charges and miscellaneous receipts. It excludes revenues from utilities and insurance trust funds such as for unemployment compensation and employee retirement systems.

less than 5 percent in New Jersey to 25 percent in Wyoming. Low states were generally in the Northeast and Midwest; high states mostly in the western mountains, Great Plains and the South. New York (5.5 percent) ranked third from bottom after New Jersey (4.6 percent) and Connecticut (5.4 percent). Highways and public assistance account for the lion's share of federal grants. Federal aid has a more important influence upon state and local affairs than may appear from these statistics, partly because state and local governments must commit varying proportions of their own funds to match the grants for diverse programs.

State and federal aid and other payments to localities averaged 30 percent of all local general revenues over the country. Again, differences among states were extreme, ranging from 9 percent in New Hampshire to 55 percent in New Mexico (map 9). Variations among regions are not clear, except that the ratios were relatively high in most of the South. New York (26 percent) ranked somewhat below the national average in this ratio. Wide differences from statewide averages of course occur within states with respect to this as well as other characteristics.

While state and federal aid accounted for 30 percent of local general revenues, 35 percent of state general revenues was paid out through these grants. Therefore, the grants are not only important revenues to local governments of many states, but they constitute major obligations from the standpoint of state finance in many states. The ratio of state aid to



Map 9. State and federal aid to local governments in percent of all local general revenue, United States, 1957

state general revenues ranged from 10 percent in New Hampshire to almost 58 percent in Wisconsin. New York, as one of the high states in this respect, disbursed more than half (52 percent) of its general revenues as state aid. Aid to local governments in New York is a moderately low proportion of local receipts, but a high proportion of the state budget, because locally raised revenues are a relatively large share of the state–local total in this State.

FINANCE AND FEDERAL-STATE-LOCAL RELATIONS

In considering what public services we want and in what ways we want to pay for them, the broader political issues ultimately arise of how to divide responsibility, power and control among local, state, and federal governments.

If, for example, we want more and better schools or roads, what governments should provide them—local, state or federal? What governments should administer the work? Which should raise the taxes or other revenues to finance it? If a local government should administer, and state or federal government should finance or partly finance through state or federal aid, how much control should these larger governments have over use of the money? If local governments cannot afford or are incapable of doing the work, should the local pattern be changed to become more capable? Or should the entire responsibility be passed on to state or federal governments? Likewise, if state governments are incapable, should the federal take over? If so, to what degree?

State and federal assumption of more responsibility is frequently defended by, among others, the following arguments:

1. These bigger governments levy taxes over larger areas, and therefore equalize the fiscal burden of financing desired services over a wider territory. How much equalization of fiscal burden is desirable? How much state or federal support is necessary solely to equalize?

2. Many consider these larger governments to be more effective and efficient collectors of the more recently developed taxes, such as the corporate and individual income taxes, the gasoline tax and others. This argument frequently assumes that larger federal and state grants-in-aid or other financial responsibilities would be carried by the income or other ability to pay imposts. The assumption is not, of course, completely reliable as one reads discussions of, for example, enacting a federal sales tax in addition to existing local and state sales taxes over the United States.

3. Many local governments lack the size of operations to employ efficiently and to pay for modern techniques, equipment, and professional experts and managers. If we grant truth to this argument, are there acceptable alternatives within the framework of local government?

4. The federal (or state) interest in seeing that something gets done, as in education or roads, is so overriding that responsibility cannot be left primarily or entirely to lower governments. In what areas of what public services does this argument seem most weighty?

The federal system for dividing responsibility between states and the national government was a compromise partly influenced by concern of some designers of the Constitution over the dangers of concentrating governmental power. Similarly, the states divided responsibility between state and local governments.

The issue of concentration of power persistently intrudes upon questions of local and state finance. We would be realistic to recognize it. Local consolidation, state and federal grants, state and federal assumption of direct political and administrative responsibility—all generally lead to gathering of greater governmental power into larger units and into the hands of professional experts in the administration of one specialty or another. This is a factor often implicit in local or state reluctance to sanction change. Maybe the age is past for entertaining uncomfortable reservations, although the evidence that humans have become more benign, trustworthy and capable in exercising power seems neither clear nor consistent. Maybe concentration of power is the price of survival in the present-day precarious world situation and state of technology. Yet some people still question whether we risk losing valued liberties and responsibilities by failing to discriminate adequately between what must be controlled from the center and what can be better left on the periphery.

A chronic problem of many economically underdeveloped countries, which characteristically are ruled by highly centralized governments, is to obtain public support for tax collections that will be even moderately effective. The tax collections in turn are essential to make vital services like schools, roads, health and extension work reach a high proportion of the people in a high percentage of the areas. The relation between these failures and concentration of power is conjectural. It is a question worth studying, and worth studying in relation to its applicability, if any, to the present day United States.

On the other hand

> —In the competition for power, success is likely to be won by those who can effectively use power. On the record of the last half century the federal government has demonstrated on the whole a capacity to use power more effectively than the states. It is for this reason, among others, that the American people have agreed that the national government should take charge and get action across the nation....If the states do not possess the competence and the will to act vigorously and effectively, they may continue to lose the capacity to act.[14]

[14]White, Leonard D., *The States and the Nation*, Louisiana State University Press, 1953, p. 56.

More specifically, what could most states do better to win the capacity to act? There are many possible answers, but the following seem pertinent:

1. Develop much more farsighted and effective political and administrative leadership.

2. Recognize much more clearly that in state and local affairs, as in other areas of American activity, we must make optimum use of modern technology and professional expertness.

3. Face the fact that local and state finance has become important in total dollars required, and that considerations of equity therefore are not only of academic interest but of pressing significance for practical action.

Leadership

Lack of effective, farsighted leadership demoralizes the capacity to act in many state and local governments. Able observers have considered the New York State government an exception to this general rule, but the rule applies to many local governments in the State. Furthermore, the general countrywide situation influences New York in many ways. When federal intervention, through grants-in-aid or other means, is being debated, the countrywide deficiencies in state or local action balance the scales much more heavily than what New York or a few other scattered states are doing.

How do you get this kind of leadership? Probably no one can prescribe a neat formula that guarantees success. One possible way, and a reason for this publication, is to develop interest in the important issues of state and local affairs among people possessing leadership capacity.

The difference that leadership makes is often remarkable. Persistent, thorough, tactful effort over several years by an interested and competent citizen recently resulted in a sizable school consolidation in his home community with a minimum of acrimony. A women's group studied thoroughly a local property tax situation and worked for more equitable assessments. Within a few years, the local governing body authorized a professional reappraisal of taxable property and took other measures for sustained improvements in administration. These are modest illustrations intended to emphasize that leadership can begin at home, and that the individual citizen counts for more than he often thinks, if he is willing to take the trouble required.

A young, unassuming, imaginative civil engineer has conducted extension work and research for several years in a state university agricultural engineering department with local rural highway officials. An important state highway engineer, not addicted to compliments of this kind, recently credited him as a principal agent in raising impressively the level of local road maintenance and construction performed by elective township officers. His work has challenged interest in technical competence, raised

morale, given a new sense of dignity to the men involved, and indirectly has diminished markedly the number and scale of violations of the public trust by these men.

Technology and Professional Expertness

State and local government can no more afford to ignore technological advances and technically expert personnel than the farmer or rancher or other businessman. Like the farmer, this probably means adding more land or consolidating units, reducing the number of local units (even as the number of farms has been reduced), increasing capital investment in equipment and materials, and putting more money and imagination into improving personal know-how or technical and managerial competence.

Optimum capital investment and expert personnel cannot be financed by small local governments any more economically than they can on a farm with the acreage or intensity of operations of a half century or a century ago. Farmers unable or unwilling to add to acreage or intensity have either gone out of agriculture or clung precariously at the margin. State and local leadership unable or unwilling to adjust the size of business of local government has been and will continue to be by-passed as people turn elsewhere to get action.

This adjustment, if it is undertaken, can be achieved in various ways. One most commonly mentioned is reduction and consolidation of local governments. The traditional small school district, still widely extant in many states, is most frequently cited. It probably represents a far more serious situation than other local rural units, because the education function is relatively costly and these districts are small. Much, though not all, of the need for state aid may arise because of the extreme disparity in local tax resources among these minutely compartmented areas.

Among other adjustments in size of operations sometimes proposed are the following:

1. Reduction of layers of local government. In some states a farmer or other citizen lives in a minimum of three: the county, township, and school district. Related to this proposal is elimination of townships in some states and even school districts, by placing their functions under the county.
2. Enlarging the area of many counties.
3. Cooperative arrangements among local governments for performing functions, and sharing equipment, personnel, and the like.
4. Consolidation of management under one executive head. This proposal is directed principally to counties and cities.

How much of this sort of consolidation is called for? Scientific evidence is scanty, and does not begin to approach that in farm management, for

example. We need to study more carefully what things a reasonably sized local government can do, and do better than the state or national governments from the standpoint not only of the fiscal and administrative, but also the political.

For schools, a current conclusion is that no school organization should be so small that it has less than 100 in the high school senior class, except where students live so far apart that this is clearly impractical.[15]

Other studies have shown that up to an uncertain point, the per capita cost of performing government services is lower in communities of relatively large population than small. This information may often be misleading, however, partly because population density is an important interrelated variable, *i.e.*, per capita costs are frequently high primarily because of sparse settlement. Nevertheless, evidence of the times points toward greater economy and better performance achievable from as large scale operation as is likely to be attained in practice.

Modern improvements in transportation and communication are often cited as a controlling factor in manageable size of local government operations: the horse and buggy versus the automobile. This factor is important, but we should not ignore another. A traditional local government advantage is knowledge of local conditions and people. There are human limits to the area and number of people over which local representatives can extend this knowledge, though modern facilities enlarge the possibilities. As secretarial barriers multiply, more and more citizens fail to penetrate the inner sanctum, and the occupants of that hallowed space have greater difficulty in learning what is really going on in their domain.

Local consolidation essentially means concentration of power. Many people are reluctant to accede to this locally. Yet one way of slowing the march of power to the central government may be to concentrate and make fuller use of the power still available in the local and state capitols. It may also be one way of focusing responsibility, which is now typically widely diffused locally, so that the citizen has a better chance of knowing whom to hold responsible.

New York has been among the leaders in school district consolidation, and action continues. Neither this State nor others have made many effective moves toward consolidation or enlargement of other local governments. Many though not all New York governments are larger than is typical of the nation in population, area, and scope of government services. Size of local operation has also been increasing as additional responsibilities fall upon existing political units. Substantial advances have occurred toward cooperative arrangements among these units, including joint financing and performance of local work loads.

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[15]Conant, James B., *The American High School Today*, McGraw-Hill, 1959.

As population concentrates in some areas and declines in others, questions arise more frequently of how to adjust the changing and growing managerial and financial burden, and at the same time maintain local political responsiveness. The intensive problems of expanding metropolitan areas are at one pole and those of areas that are losing people and resources are at another.

Equity and Finance

We can improve tax equity in a number of ways. One is to begin at home by improving local administration of the present property tax. Another is to consider the practicality and equity of using other local taxes and other revenues now permitted by state laws as a partial substitute for the property tax. We can study existing state and federal aid provisions and the tax sources from which these grants are derived. We can also examine alternative courses of action and their consequences as they relate to changes in state and local expenditures, and in local, state or federal tax sources from which needed revenues must be derived.

We may be able to improve tax equity through consolidation of, or cooperation among, local governments in levying, collecting and spending local taxes. It is easier and more reasonable for a state to broaden or make more flexible the taxing powers of larger, more populous local areas than their opposites. The extremities of variation in tax burden may be narrowed. It is probably easier to make tax administration more effective and efficient.

The cautious word *probably* appears here deliberately. Some have long advocated property assessment by counties rather than townships. Yet the record of county assessment in some states appears undistinguished. New York values its reputation for good state administration. Yet it estimated that it would pick up $25 to $40 millions more this year from the State personal income tax by inaugurating a withholding or payroll deduction system; it recognized that many people have heretofore dodged this tax successfully. The Federal Internal Revenue Service has recently asked for several hundred more helpers to collect the federal individual income tax with the expectation of receiving much more revenue than the outlays involved. Size of jurisdiction may help within limits, but it is important to recognize that there are limits. One of them is the amount of alert, intelligent and sustained public interest and leadership.

Even if there were fewer and larger local areas as tax levying and collecting jurisdictions, considerable variations in tax burden relative to services would remain. The state would continue to be a more logical unit than the localities for levying and collecting some types of taxes. State aid is justified on both counts. At the same time, the state would possess broader opportunity to devise systems of allocating grants fairly because

it would need to consider fewer local governments with a narrower range of circumstances.

Reconsideration of state aid might include a more careful look at unconditional general purpose grants. Short of this, conditional grants more general in purpose might be appraised, as opposed to the frequently narlowly focused, meticulously conditioned multiplicity of grants now typically employed. Refreshing results might follow from trying state aid provisions that aim at stimulating local leaders to take responsibility for judging broadly priorities of local needs, instead of blindly chasing state dollars down narrow program alleys. The present situation all too often leads to unwanted proliferation of state rules and regulations, because localities seek interpretation from state supervisory agencies on how to qualify for the last possible dollar on some carefully defined program.

Federal grants to states are often justified on grounds similar to those on which state aid to local governments are based. As for state aid, a common federal justification is that there is a federal interest in insuring through this fiscal device that one or another program or service is carried out. Thus the federal government, too, focuses the money on narrowly defined program objectives.

To some degree this probably cannot be avoided. Yet it seems appropriate to raise a seldom raised query: is there a national interest in encouraging development of state (and local) governmental leadership, power and authority? Or is there a state interest in enhancement of local responsibility?

We need to make optimum use of technology and professional expertness in performing government services that are primarily local and state responsibilities. We need to derive necessary revenues without unjust disparities in loading charges among communities and individuals. We might weigh these things, recognizing the possibility that the designers of our republic may not have been entirely mistaken, even under modern conditions, in devising the safeguards against abuses of power afforded by the federal system of government.

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